October 1990

$7.00

New Choices in Trucks and Trailers
Regions: Jobbers Sound Off on Oil Spike
C-Stores Score With Oddball Merchandising

NPN

National Petroleum News

Will Mideast Crisis Hurt Texaco's Rebirth?

1990 Oil Shock

NPN
NATIONAL PETROLEUM NEWS
Established in 1909

VOL. 82 **NO. 11**

Editorial Staff:

Editor in Chief
Peggy Smedley

Executive Editor
J. Richard Shaner

Senior Editor
Donald M. Smith

Staff Reporter
Steve Dwyer–Chicago

Production Editor
Julie Miguel

Editorial Assistants
Wendi Barlow
Arlene Clatts

Contributing Correspondents
Marvin Reid
Mark Emond
Angel Abcede

Columnists
Sam Borenkind
Irving Blackman
Paul Forbes
Howard Upton

Executive Staff:

Chairman of the Board
Elliot Stein Jr.

Vice Chairman of the Board
I. Martin Pompadur

President
Robert E. Yarbrough Jr.

Publisher
Wm. D. Straub

Circulation Director
Roger DiGregorio

Circulation Manager
Patricia Kaminski

Director of Production
George Chmielarz

Production Manager
Lloyd Schultz

Classified Sales
Elizabeth Santelli

Regional Reporters:
East Coast: J. Richard Shaner, P.O. Box 1476, Morristown, NJ 07962-1476. (201) 428-2902
Midwest: Steve Dwyer, 950 Lee St., Des Plaines, IL 60016. (708) 296-0770
South: Angel Abcede, 950 Lee St., Des Plaines, IL 60016. (708) 296-0770
West: Mark Emond, P.O. Box 8130, Anaheim, CA 92812-0130. (714) 774-5598

Editor's Viewpoint

There's never a dull moment in the petroleum industry. Iraq's invasion of Kuwait not only rocked the world's oil industry, but it threw our editorial department into a tailspin, too.

We received dozens, and I mean dozens, of calls from various media organizations. Reporters from the *New York Times, Chicago Tribune* and *Wall Street Journal,* to name a few.

For a couple of weeks I was confused about what my job title was: teacher or editor. I listened—with as much composure as I could summon—as reporters tried to bait me (and the industry) with buzz words such as "gouging, hoarding, stealing and cheating." So what did I do? Diligently and patiently, I tried to articulate how a free market works. I'm sure many of you have been through the same journalistic wringer.

I attempted to explain to these intrepid reporters why prices jumped and how the spot and futures markets now play such a significant role in the industry's pricing volatility. After a half a dozen interviews, it occurred to me that the oil industry had made very little, if any, headway during the past two decades in trying to explain to the media and to the public how the industry really works. I guess the industry will have to try harder to get its story across.

On a more positive note, even before the Persian Gulf exploded, one oil company decided that if the Berlin Wall could come down so could their "wall of silence"—figuratively speaking, of course. I recently had the pleasure of meeting with Texaco officials and interviewing them for this month's cover story. Here's a company that had acquired a rep, deserved or not, as being somewhat standoffish with the press. But, I'm happy to report, Texaco was open, candid, informative and answered every question I posed.

This interview, and this story, is long overdue. I hope this is the beginning of many more frank discussions with them as well as with other oil companies.

Meanwhile, I'd like to call your attention to a couple of editorial departments *NPN* has added this issue: a Letters to the Editor page and a C-store column.

Occasionally, we receive letters from readers commenting on articles and issues we cover in *NPN* and we think many of these comments should be shared with our readers. As you will read on page 124, my cover story on Stage II in August already has sparked a lot of response—some pro, some con.

Our monthly convenience store column will be written, on a revolving basis, by several top notch consultants in the industry.

These additions are only the beginning in our overall objective to enhance *NPN's* tradition of excellence. We're really pumped up about the changes that are still to come and hope you will share in this excitement. —*Peggy Smedley*

NPN—National Petroleum News (ISSN 0149-5267) is published monthly (except semi-monthly in June) by Hunter Publishing Limited Partnership, 950 Lee Street, Des Plaines, Illinois 60016, (708) 296-0770.

© NPN—National Petroleum News

Second class postage paid at Des Plaines, Illinois and additional mailing offices.

Subscriptions are solicited only from executive, management and supervisory personnel at the supplier and wholesale level of oil marketing, engaged in the distribution, merchandising, transportation and storage of petroleum, TBA products, and convenience store items. Position, company and segment of industry must be indicated on subscription orders.

The Audit Bureau

HUNTER™

Basic **subscription rates** for one year to individuals in the petroleum marketing industry are: U.S. $60; Canada $69 (U.S. $); Foreign surface mail $75 (U.S. $); Foreign airmail $110 (U.S. $). Non-industry personnel rates for one year are: U.S. $75; Canada $84 (U.S. $); Foreign surface mail $90 (U.S. $); Foreign airmail $134 (U.S. $); **Single copy price:** U.S. & Canada $9.00 (includes first class postage). Foreign $11.00 (includes airmail postage). **Mid-June Factbook:** U.S. $50; Canada $60; Foreign $70. The publisher reserves the right to accept or reject any subscription. (R) Title registered in U.S patent office. **Change of address:** Notices should be sent promptly; provide old mailing label as well as new address; include ZIP or postal code. Allow 6-8 weeks for change. Send address changes, correspondence regarding subscription service or subscription orders to: Circulation Department, NATIONAL PETROLEUM NEWS, 950 Lee Street, Des Plaines, Illinois 60016. Or call (708) 296-0770, 9 a.m. to 4 p.m.

Postmaster: Send address changes to NPN—NATIONAL PETROLEUM NEWS, 950 Lee Street, Des Plaines, Illinois 60016.

NATIONAL PETROLEUM NEWS

15 Regional News

15 South
Will crisis rekindle Oil Patch drilling?

16 East
Oil shock reactions both hot and cool in East

21 West
Gasoline price freeze hurts independents

22 Midwest
Jobbers restive about fall supplies as prices gyrate

28A General News

28A Disabilities could bring C-store changes

28B Arco launches second reformulated gasoline

28D Marketers want SPR tapped; Bush, DOE don't

32 Environmental image impacts overall sales

33 Leak detection system measures mass, not volume

33 Texaco survey: Energy policy needed

34 EPA issues low-sulfur diesel rule

36 Big C-store chains show mixed earnings results

41 Refiners to spend $22-billion for reformulated fuel

41 Ethanol's future still looking bright

42 Features

42 Cover Report
Will the Mideast crisis hurt Texaco's rebirth?

52 Operations Management
New choices in trucks, trailers for petroleum marketers

56 Marketing
C-store operators score with oddball merchandising

60 Special Report
1990 oil shock: Oil industry up in arms

114 Legal Tips—Sam Borenkind
Transferring your business by gifts

116 Tax Corner—Irving Blackman
To be or not to be...An S corporation

118 Marketing Management—Paul Forbes
Rating your communications

120 C-Store Opportunities—Coney Elliott
The name of the game is convenience

Departments

94 About Oil People

7 Ahead of the News

100 Briefs

9 Catching Up

123 Classified

120 Coming Meetings

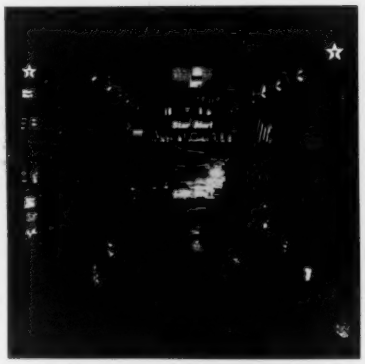
3 Editor's Viewpoint

124 Letters to the Editor

10 Marketplace

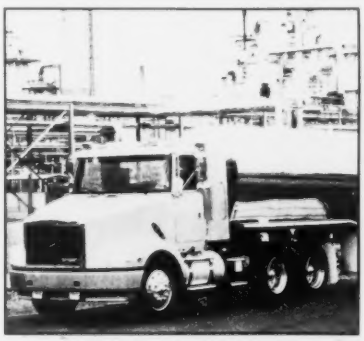
89 Product Showcase

10 Trends



Texaco's struggle to overcome a series of misfortunes, including a takeover attempt and a spell in Chapter 11, appears headed for success—if events in the Persian Gulf don't throw the company another curve.

Page 42



Today's petroleum marketers have a bigger choice than ever in truck, tank-truck and tank-trailer options. Here's a look at the trends in truck design and new developments in the truck market.

Page 52

Iraq's sudden takeover of Kuwait rocked the oil industry—and the entire world—back on its heels. Here's a special report on how marketers, oil companies and industry analysts view the oil shock of 1990.

Page 60

• TRENDS

The Months Ahead: Rough Times Face Oil Marketers Everywhere

It used to be in the days of tall ships and billowing sails that when howling winds and heaving waves overwhelmed them unexpectedly at sea, the watchword for all hands was: "Batten down the hatches, boys, we're in for a blow; and there's no getting away from it now. Only the Good Lord Himself knows where we're going to wind up this time."

Oil men aren't sailors, of course, so this is simply a comparable analogy of the very nasty situation that overtook the petroleum industry in August, when Iraq squashed Kuwait and defied the world and, in the trappings, the United Nations couldn't do anything about it.

In a marketplace as volatile as petroleum's, where (simple analogy again) muted sneezes can often be misinterpreted as violent coughs, reaction was predictable. Prices began to move upwards, and by the end of the month crude and products looked like they were on runaway courses. Record highs for gasoline pump retails and distillate fuel oils seemed very likely prospects by midwinter.

It is true, of course, that the suppliers triggered the product price panic by saying they were guided by replacement values, not current inventories, and boosted wholesales within 24 hours of the invasion. That caused leap-frog price hikes for gasoline and, almost unnoticed because they were out of season, similar jumps for home-heating oils. The military buildup in August and September put comparable pressures on jet fuel supplies and prices.

A point to remember is that unlike the old days the current marketplaces (and specifically, prices) are dominated more by outside speculators than by oil men. The speculators moved in greedily, aided and abetted by the brokers who took advantage of every kernel of news or non-news to goose and generate market reaction, almost like throwing kerosine on the fire. Brokers make money by the bucketsful for themselves and their clients in the futures markets. An analomy to emphasize the point: Futures markets raced headily 15¢ to 20¢ gal. above the spot market.

Washington, by the end of August, intervened and summoned the major oil companies to the capitol to explain what happened.

There isn't any easy answer now, nor will there be when peace and quiet return. The fearsome specter that wartime hostilities would resurrect the allocation and price controls of the late '70s and early '80s only compounded the nastiness of the possibilities this fall.

One thing is certain: The oil industry is going to take another image and public relations bath and bashing this winter, especially the fuel oil segment because it will be further out on the firing line than the gasoline business in the months immediately ahead.

Heaven forbid that December or January should experience another cold siege like it did nine months ago. If that frigid period could produce record highs for home heating oil in its own right, Lord only knows what it'll be like after the first of the new year when nominal consumer bases cannot help but be much higher.

It can be anticipated that all product marketers—gasoline, fuel oil, kerosine, jet fuel, propane and even resid—are going to have to take their lumps this winter. Only a fast resolution of the Middle East crisis, which doesn't seem likely at this point, can salvage the darkening vista. But even if the worst possible scenarios never come about and bloodshed on the battlefields is avoided, it will be months, maybe years, before all the troops and war machines are home. It is doubtful that product prices will ever get back to their so-called "normals." October's traditional hobgoblins simply came early this year and probably won't go away until the mid-'90s at the earliest.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

July	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.139	$1.089	$1.084	$1.272
Regions				
Northeast	1.155	1.076	1.075	1.293
North Central	1.128	1.073	1.084	1.283
South	1.118	1.055	1.055	1.232
West	1.163	1.100	1.137	1.318

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	8/31/90	9/1/89
Gasoline (Total)	210,459	217,725
Gasoline (Unleaded)*	162,252	156,501
Jet Kerosine	41,982	41,711
Distillates	126,671	116,792
Residual	49,229	42,156

**Included in gasoline total.*
Source: American Petroleum Institute.